

ZION RECOVERY SERVICES, INC.

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2010 AND 2009

ZION RECOVERY SERVICES, INC.

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ZION RECOVERY SERVICES, INC.
Officials
June 30, 2010

Board of Directors:

Jim Richardson, Chairperson

Steve Ratcliff, Vice-Chairperson

David Dunfee, Secretary-Treasurer

Matt Wedemeyer

Brad Golightly

Cara Morgan

Address

Shenandoah, Iowa

Red Oak, Iowa

Atlantic, Iowa

Greenfield, Iowa

Adel, Iowa

Sidney, Iowa

Program Administrator:

Laurie Cooley

Anita, Iowa

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

We have audited the accompanying balance sheets of Zion Recovery Services, Inc. as of June 30, 2010 and 2009, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Zion Recovery Services, Inc. as of June 30, 2010 and 2009, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2010 on our consideration of Zion Recovery Services, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information (shown on page 10) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gronewold, Bell, Kyhnn & Co. P.C.

Atlantic, Iowa
September 1, 2010

ZION RECOVERY SERVICES, INC.
Balance Sheets
June 30,

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 190,359	\$ 197,446
Certificates of deposit	263,347	256,256
Accounts receivable, less allowance for doubtful accounts (\$51,000 in 2010 and \$42,000 in 2009)	37,600	46,082
Grant receivables	30,872	--
Inventory	933	225
Prepaid expense	24,807	25,525
Total current assets	<u>547,918</u>	<u>525,534</u>
Property and Equipment, Net	<u>19,916</u>	<u>23,821</u>
Total assets	<u>\$ 567,834</u>	<u>\$ 549,355</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 5,209	\$ 13,905
Accrued employee compensation	24,809	25,311
Payroll taxes withheld and accrued	7,134	12,720
Total current liabilities	<u>37,152</u>	<u>51,936</u>
Net Assets:		
Unrestricted	<u>530,682</u>	<u>497,419</u>
Total liabilities and net assets	<u>\$ 567,834</u>	<u>\$ 549,355</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Statements of Activities and Changes in Net Assets
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Support and Revenue:		
Support:		
Iowa Department of Public Health -		
Comprehensive Treatment:		
Iowa Managed Substance Abuse		
Care Plan - Non-Medicaid	\$ 904,736	\$ 851,781
Plan Iowa Improving Access and		
Continuation Project	--	600
County funding	--	2,310
Donations	<u>2,581</u>	<u>2,261</u>
Total support	907,317	856,952
Revenue:		
Client fees, net	108,858	126,812
Medicaid fees	160,004	136,155
Access to recovery revenue	90,715	153,764
Interest income	7,310	7,824
Other revenues	<u>72,961</u>	<u>38,404</u>
Total revenue	439,848	462,959
Total Support and Revenue	1,347,165	1,319,911
Expenses:		
Salaries and wages	745,757	676,240
Employee benefits	223,246	201,702
Advertising and promotion	14,799	7,456
Provision for depreciation	5,982	4,984
Food costs	27,888	35,244
Insurance	11,339	12,763
Miscellaneous	12,499	10,584
Professional services	18,167	17,991
Rent	95,310	93,064
Repairs and maintenance	23,339	22,997
Supplies and other expense	65,075	148,319
Telephone	25,896	23,913
Training costs	14,527	15,236
Travel	22,689	31,177
Utilities	<u>7,389</u>	<u>6,594</u>
Total expenses	1,313,902	1,308,264
Increase in Unrestricted Net Assets	33,263	11,647
Net Assets at Beginning of Year	<u>497,419</u>	<u>485,772</u>
Net Assets at End of Year	<u>\$ 530,682</u>	<u>\$ 497,419</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Statements of Cash Flows
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from clients, third-party payors, and court system	\$ 434,796	\$ 473,707
Cash paid to suppliers and employees	(1,320,713)	(1,284,922)
Contract funding received	880,088	852,381
County funding received	--	2,310
Donations received	600	1,000
Interest received	7,310	7,824
Net cash provided by operating activities	<u>2,081</u>	<u>52,300</u>
Cash flows from investing activities:		
Capital expenditures	(2,077)	(8,618)
Purchase of certificates of deposit	(7,091)	(9,631)
Net cash used in investing activities	<u>(9,168)</u>	<u>(18,249)</u>
Net increase (decrease) in cash and cash equivalents	(7,087)	34,051
Cash and cash equivalents at beginning of year	<u>197,446</u>	<u>163,395</u>
Cash and cash equivalents at end of year	<u>\$ 190,359</u>	<u>\$ 197,446</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 33,263	\$ 11,647
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for depreciation	5,982	4,984
Changes in assets and liabilities		
Accounts receivable	(22,390)	18,572
Inventory	(708)	121
Prepaid expense	718	1,270
Accounts payable	(8,696)	1,905
Accrued employee compensation	(502)	5,163
Payroll taxes withheld and accrued	(5,586)	8,638
Total adjustments	<u>(31,182)</u>	<u>40,653</u>
Net cash provided by operating activities	<u>\$ 2,081</u>	<u>\$ 52,300</u>

The Agency also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of change in net assets to net cash provided by operating activities:

	<u>2010</u>	<u>2009</u>
Iowa Food Bank donations	<u>\$ 1,981</u>	<u>\$ 1,261</u>

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Nature of Activities

Zion Recovery Services, Inc. (formerly known as Alcohol and Drug Assistance Agency, Inc.) was created in 1973 as a non-profit corporation under the provisions of the Iowa Non-Profit Corporation Act, Chapter 504A of the Code of Iowa. The Agency is a not for profit corporation and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Agency is to provide for the care, maintenance, education and treatment of the substance abuser. The Agency presently serves the six-county area of Adair, Cass, Dallas, Fremont, Montgomery and Page Counties and maintains a residential facility for intermediate care in Clarinda, Iowa. The Board of Directors is made up of a representative from the County Board of Supervisors of each of the six counties in the service area. Each member serves an annual term.

2. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Inventory

The Agency values the food donations received and food inventory at its estimated wholesale cost to show a realistic cost of providing meals to the patients of the residential treatment center.

5. Property and Equipment

Property and equipment is stated at cost. Property and equipment donated for Agency operations are recorded at fair value. The Agency computes depreciation using the straight-line method. Useful lives of equipment range from three to seven years. The useful lives of leasehold improvements range from five to fifteen years.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

6. Unrestricted Revenues and Support

- a. Client fees are recorded net of adjustments for uncollectible accounts. The adjustments for uncollectible accounts are \$154,814 for 2010 and \$143,638 for 2009.
- b. The managed care contract revenues are recorded monthly as the payments are received. The contract requirements include minimum units of service that must be provided to earn the contract revenue. The Agency may be required to pay back a portion of the contract revenue if the minimum units of service are not met.

7. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less and food stamps received for payment of client services to be cash equivalents.

NOTE B - MANAGED CARE CONTRACT

The Agency's substance abuse treatment and rehabilitation services are being reimbursed under a managed care contract administered by Magellan Behavioral Health, Inc. The Agency received approximately 67% of its total support and revenue through this contract for the year ended June 30, 2010 (65% for 2009). The Agency's managed care contract for its current six county service area has been renewed for fiscal year ending June 30, 2011.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment is stated at acquisition cost. The cost by major category and accumulated depreciation at June 30 are as follows:

	<u>2010</u>	<u>2009</u>
Leasehold Improvements	\$ 3,818	\$ 3,818
Equipment	<u>65,267</u>	<u>63,190</u>
	69,085	67,008
Less Accumulated Depreciation	<u>49,169</u>	<u>43,187</u>
	<u>\$ 19,916</u>	<u>\$ 23,821</u>

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2010 and 2009

NOTE D - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	<u>2010</u>	<u>2009</u>
Outpatient and Residential Services	\$ 1,044,144	\$ 1,018,627
Management and General	<u>269,758</u>	<u>289,637</u>
	<u>\$ 1,313,902</u>	<u>\$ 1,308,264</u>

NOTE E - CONCENTRATION OF CREDIT RISK

The Agency grants credit without collateral to its clients, most of whom are residents of the six county service area. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicaid	1%	8%
Client accounts	<u>99</u>	<u>92</u>
	<u>100%</u>	<u>100%</u>

NOTE F - PENSION AND RETIREMENT BENEFITS

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.30% (4.50% effective July 1, 2010) of their annual covered salary and the Agency is required to contribute 6.65% (6.95% effective July 1, 2010) of annual covered payroll. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were approximately \$49,300, \$39,600, and \$36,700, respectively, equal to the required contributions for each year.

ZION RECOVERY SERVICES, INC.
Notes to Financial Statements
June 30, 2010 and 2009

NOTE G - CONTINGENCIES

Risk Management

The Agency is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Zion Recovery Services, Inc. is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Subsequent Events

The Agency has evaluated all subsequent events through September 1, 2010, the date the financial statements were available to be issued.

* * *

SUPPLEMENTARY INFORMATION

ZION RECOVERY SERVICES, INC.
Schedule of Expenditures by Activity
Year ended June 30,

	2010				2009
	ATR & DUI Services	Outpatient Services	Residential Services	Total	Total
Salaries and wages	\$ 6,921	\$ 534,149	\$ 204,687	\$ 745,757	\$ 676,240
Employee benefits	1,132	157,364	64,750	223,246	201,702
Advertising and promotion	--	12,581	2,218	14,799	7,456
Provision for depreciation	--	5,982	--	5,982	4,984
Food costs	--	--	27,888	27,888	35,244
Insurance	--	6,803	4,536	11,339	12,763
Miscellaneous	1,149	10,848	502	12,499	10,584
Professional services	--	10,413	7,754	18,167	17,991
Rent	--	82,579	12,731	95,310	93,064
Repairs and maintenance	--	18,755	4,584	23,339	22,997
Supplies and other expense	18,599	34,946	11,530	65,075	148,319
Telephone	649	18,319	6,928	25,896	23,913
Training costs	--	12,522	2,005	14,527	15,236
Travel	2,349	17,201	3,139	22,689	31,177
Utilities	--	7,389	--	7,389	6,594
	<u>\$ 30,799</u>	<u>\$ 929,851</u>	<u>\$ 353,252</u>	<u>\$1,313,902</u>	<u>\$1,308,264</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

We have audited the financial statements of Zion Recovery Services, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated September 1, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Zion Recovery Services, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Zion Recovery Services, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Directors
Zion Recovery Services, Inc.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 10-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Zion Recovery Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Zion Recovery Services, Inc.'s response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Agency's response, we did not audit the Agency's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Zion Recovery Services, Inc. and other parties to whom the Agency may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Granwald, Ben, Kynan & Co. P.C.

Atlantic, Iowa
September 1, 2010

ZION RECOVERY SERVICES, INC.
Schedule of Findings
Year ended June 30, 2010

PART I - REPORTABLE CONDITIONS

10-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Agency. This deficiency is common among most small organizations.

Recommendation: We recognize that it may not be economically feasible for the Agency to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Agency to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *